# JAMES MADISON UNIVERSITY®

AUDITED FINANCIAL REPORT

FOR THE YEAR ENDED

JUNE 30, 2010

# JAMES MADISON UNIVERSITY

# FINANCIAL REPORT 2009 - 2010

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## MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

### Overview

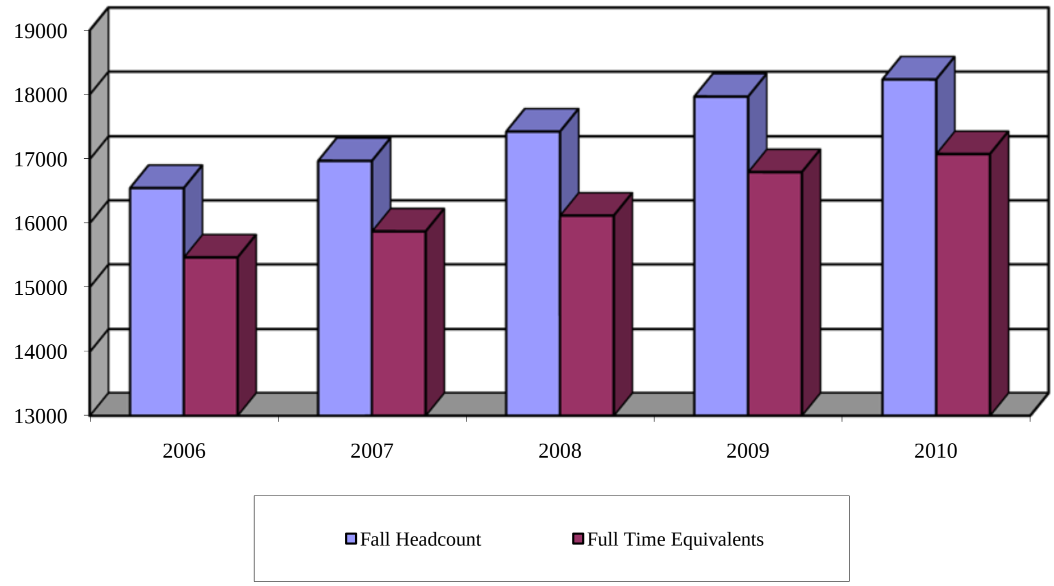
This Management's Discussion and Analysis (MD&A) is required supplemental information under the Governmental Accounting Standards Board (GASB) reporting model. It is designed to assist readers in understanding the accompanying financial statements and provides an objective, easily read analysis of James Madison University's (University) financial activities based on currently known facts, decisions, and conditions. This discussion includes an analysis of the University's financial condition and results of operations for the fiscal year ended June 30, 2010. Comparative numbers, where presented, are for the fiscal year ending June 30, 2009. Since this presentation includes highly summarized data, it should be read in conjunction with the accompanying financial statements, and notes to financial statements. University management is responsible for all of the financial information presented, including this discussion and analysis.

The financial statements referred to above were prepared in accordance with GASB Statement Number 34, *Basic Financial Statements–and Management's Discussion and Analysis–for State and Local Governments*, and GASB Statement Number 35, *Basic Financial Statements–and Management's Discussion and Analysis–for Public Colleges and Universities*, as amended by subsequent GASB Statement Numbers 37, 38, and 39. GASB Statement Number 39, *Determining Whether Certain Organizations are Component Units* addresses which fund-raising, research, or other foundations should be included as component units and how these component units should be displayed in the financial statements. Under previous accounting standards, the University had no component units. Under Statement Number 39's standards, the James Madison University Foundation, Inc. (Foundation) meets the criteria and is included as a component unit. The Foundation is presented in a separate column on the University's financial statements; however, inter-company transactions between the University and the Foundation have not been eliminated. The remainder of this discussion and analysis excludes the Foundation's financial condition and activities.

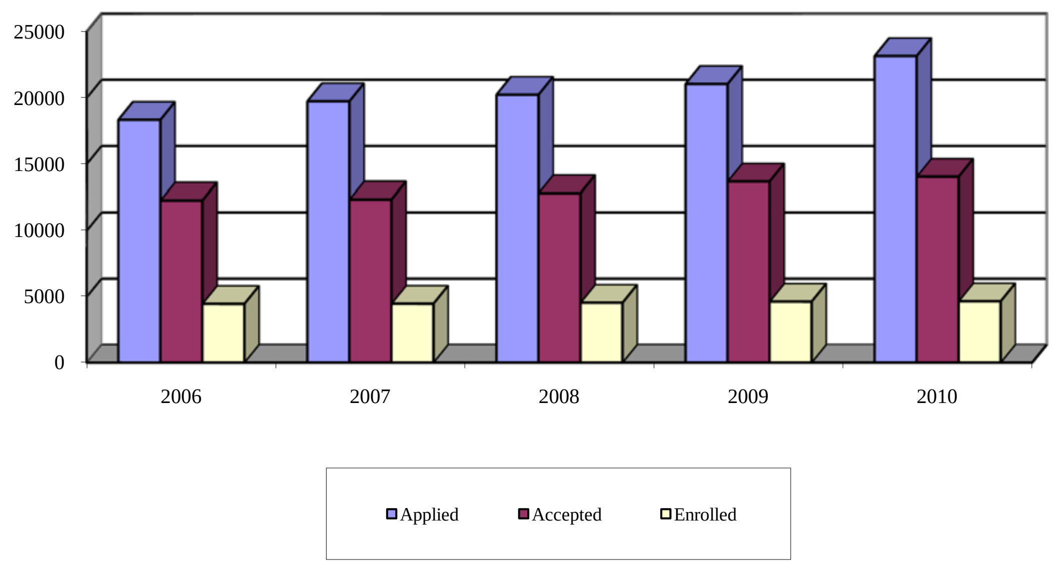
The three basic financial statements are the Statement of Net Assets (balance sheet), the Statement of Revenues, Expenses, and Changes in Net Assets (operating statement), and the Statement of Cash Flows. The following analysis discusses elements from each of these statements, as well as an overview of the University's activities.

### Enrollment and Admissions Information

After a period of continuous enrollment growth in the 1990's, the University's enrollment stabilized in 2001-2005 between 15,000 – 15,800 students. However, as discussed in the "Economic Outlook" section, under the Higher Education Restructuring Act, institutions are required to adhere to goals that increase student access. Successful efforts in this area will result in increased enrollment, now projected at nearly 20,300 students by 2016. The beginning of this enrollment increase is reflected in the growth of the on-campus headcount from 15,800 in fall 2004 to 18,200 in fall 2009.




Overall, undergraduate and transfer applications, acceptances, and subsequent enrollment of accepted applicants are indicators of the University's popularity and selectivity among prospective students as shown in the graph below. The University continues to be a popular choice for students seeking a comprehensive, student-centered educational experience.



Statement of Net Assets

The Statement of Net Assets (SNA) presents the University's assets, liabilities, and net assets as of the end of the fiscal year. The purpose of this statement is to present to the financial statement readers a snapshot of the University's financial position at June 30, 2010. The data presented in the SNA aids in determining the assets available to continue the University's operations. It also allows readers to determine how much the University owes to vendors and creditors. Finally, the SNA provides a picture of net assets and their availability for expenditure by the University. Sustained increases in net assets are one indicator of an organization's financial health.

Net assets are divided into three major categories. The first category, "Invested in capital assets, net of related debt," represents the University's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. Debt incurred, but not yet expended for capital assets, is not included as a component of invested in capital assets, net of related debt. The next category is "restricted net assets," which is divided into two categories, expendable and non-expendable. Expendable restricted assets include resources the University is legally or contractually obligated to expend in accordance with restrictions imposed by external third parties. Non-expendable restricted net assets consist of endowments and similar type funds where donors or other outside sources have stipulated that, as a condition of the gift instrument, the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income to be expended or added to the principal. Unrestricted net assets represent resources used for the University's general operations. They may be used at the discretion of the University's Board of Visitors to meet current expenses for any lawful purpose in support of educational, general, and auxiliary activities.

Statement of Net Assets
(In thousands)

| | 2010 | 2009 |
|---|---|---|
| Assets: | | |
| Current assets | $ 156,294 | $ 143,464 |
| Capital assets, net | 663,883 | 598,375 |
| Other non-current assets | 51,142 | 18,669 |
| Total assets | 871,319 | 760,508 |
| Liabilities: | | |
| Current liabilities | 110,333 | 96,253 |
| Non-current liabilities | 198,654 | 141,180 |
| Total liabilities | 308,987 | 237,433 |
| Net assets: | | |
| Invested in capital assets, net of related debt | 494,182 | 467,350 |
| Restricted – expendable | 3,292 | 3,726 |
| Restricted – non-expendable | 285 | 267 |
| Unrestricted | 64,573 | 51,732 |
| Total net assets | $ 562,332 | $ 523,075 |

In 2010, the University's total assets increased by $110,811,000, mostly attributable to the $65,508,000 net increase in capital assets. Significant additions included continued project costs related to projects completed and capitalized during the year, including the Center for Performing Arts ($20,113,000), the Music Recital Hall ($9,237,000), and the Softball/Baseball complex ($4,438,000). Further, increases in construction-in-progress include the Bridgeforth Stadium Renovation/Expansion ($29,655,000) and University Park ($5,385,000). The increase in capital assets is further discussed in the next section of this analysis. The $12,830,000 increase in current assets includes an increase of $21,427,000 in cash and cash equivalents, including $10,340,000 representing increases in auxiliary system funds and reserves. This increase is offset by a $5,433,000 decrease in cash equivalents and short-term investments for the Commonwealth's securities lending program. The balances are allocated by the Commonwealth and are offset by a like amount reported as a liability. Changes in the balances from one year to the next have no impact on the University's net assets. Current amounts due from the Commonwealth decreased $4,714,000 mostly due to the completion of the Performing Arts and Music Recital projects, which were funded with General Obligation Bonds. Other non-current assets increased by $32,473,000, due to increases in restricted cash and cash equivalents. Unspent bond proceeds held as cash equivalents by the Treasurer of Virginia increased by $40,758,000. Unspent funds relate to the Bridgeforth Stadium Renovation/Expansion and Port Road Recreation Fields currently under Construction. Current liabilities increased $14,080,000, including increases of $11,388,000 in the current portion of long-term debt and $5,193,000 for accounts payable and accrued expenses, offset by a $5,433,000 decrease in the obligations under securities lending. The increase in accounts payable is mostly attributable to accounts and retainage payable on the capital projects described above. The increase in the current portion of long-term debt results from new debt issuances related to the Bridgeforth Stadium Renovation/Expansion and University Park.

## Capital Asset and Debt Administration

A critical factor in ensuring quality University academic, research, and residential life functions is the development and renewal of its capital assets. The University continues to maintain and upgrade current facilities as well as pursue funding opportunities for construction and purchase of additional facilities. Investment in new and upgrading current structures serves to enrich high-quality instructional programs, research activities, and residential lifestyles.

Note 5 of the Notes to Financial Statements describes the University's significant investment in capital assets with total depreciable capital asset additions of $173,776,000 (excludes land, artwork and construction-in-progress) in 2010, as compared to $29,205,000 in 2009. Additions in fiscal year 2010 included completion of the Center for Performing Arts ($57,122,000), the Music Recital Hall ($34,507,000), the East Campus Residence Hall ($27,072,000), and the East Campus Dining Facility ($22,385,000). Significant additions in fiscal year 2009 included completion of the Hoffman Hall renovation ($9,987,000), Recreation Turf Fields ($2,670,000) and $3,643,000 for various building improvement projects. All the above listed projects were primarily funded with debt proceeds, while the Center for Performing Arts and Music Recital Hall also includes state general and 21st Century program funding, gift, and auxiliary reserve funding. Non-depreciable additions for 2010 include $1,085,000 for the purchase of 722 South Main Street. Non-depreciable additions for 2009 included $3,135,000 for various land purchases surrounding the University. Depreciation expense was $24,755,000 and $23,111,000 in 2010 and 2009, with net retirements of $1,521,000 and $447,000 resulting in a net increase of depreciable capital assets of $147,499,000 and $5,646,000 for 2010 and 2009, respectively.

Major projects still under construction at June 30, 2010 include the Bridgeforth Stadium Renovation/Expansion ($33,439,000), and University Park ($7,696,000). Both projects are primarily funded by debt proceeds. Major projects under construction at June 30, 2009 included the Center for Performing

Arts, Music Recital Hall, East Campus Residence Hall, East Campus Dining Hall and Softball/Baseball Complex projects.

The University's total long-term debt increased to $209,298,000 in 2010 from $141,090,000 in fiscal year 2009. The increase is the result of new debt in 2010 of $43,040,000 for the Bridgeforth Stadium Renovation/Expansion, and $27,460,000 for construction of University Park, offset by debt principal payments. The University plans to participate in the Commonwealth's fall 2010 bond sale, incurring debt of $15,083,000 to renovate Wayland Hall, $10,000,000 to construct University Park, $9,000,000 to acquire property on Grace Street, and $8,000,000 to renovate the recently purchased North Campus Buildings.

The University's Board of Visitors approved "Debt Management Guidelines and Procedures" established that the maximum annual debt service costs as a percentage of total operating revenues shall not exceed ten percent for non-revenue producing capital projects. The University's 2010 ratio was 4.1 percent, as compared to 3.7 percent for 2009.

Overall, unpaid construction and other related contractual commitments increased from $54,715,000 in 2009 to $100,099,000 in 2010. Unpaid commitments at June 30, 2010 primarily reflect the Bridgeforth Stadium Renovation/Expansion, the construction of University Park, and the renovation of Wayland Hall. Unpaid commitments at June 30, 2009 primarily reflect construction of the Performing Arts Center and Music Recital Hall, as well as the preplanning design of Rockingham Memorial Hospital and Duke Hall Renovation. Further information relating to capital assets, construction, and capital debt is included in the Notes to Financial Statements in Notes 5 and 8.

The University's long-range capital outlay program received a major boost in fall 2002 from the voter-approved Virginia Higher Education Bond Referendum. That referendum provided over $900 million in debt-financed capital projects at higher education facilities. The bond funded projects were spread out over the years 2003 – 2009 and the bond debt is the obligation of the Commonwealth, not the University. The University's portion of the funding totaled $99.9 million for construction, renovation, and infrastructure work. As planned, these bond projects are being used to meet the needs of the current student body, not the expanded enrollment projected through 2016. The University's first bond project that got underway in 2003 was the $9.7 million Harrison Hall renovation, completed prior to the fall 2005 semester. A second project that began in 2004 and was completed in 2005 was the $4.3 million renovation of steam utility lines. Bond funding for projects completed in 2008 included $19.8 million for the East Campus Library, and $13.9 million for the Miller Hall renovation. Those projects also received significant state general funding. The remaining bond funding for projects completed in 2010 included $29.8 million for the Performing Arts Center and $20.9 million for the Music Recital Hall. In addition to the bond funds authorized, the state provided general and 21st Century funding and the University supplemented the projects with auxiliary reserve and private gift funding.

<u>Statement of Revenues, Expenses, and Changes in Net Assets</u>

The operating and non-operating activities creating the changes in the University's total net assets are presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present all revenues received and accrued, all expenses paid and accrued, and gains or losses from investment and capital asset activities.

Generally, operating revenues are received for providing goods and services to students and other constituencies of the University. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues and to carry out the University's mission. Salaries and wages, and fringe benefits for faculty and staff are the largest type of operating expense.

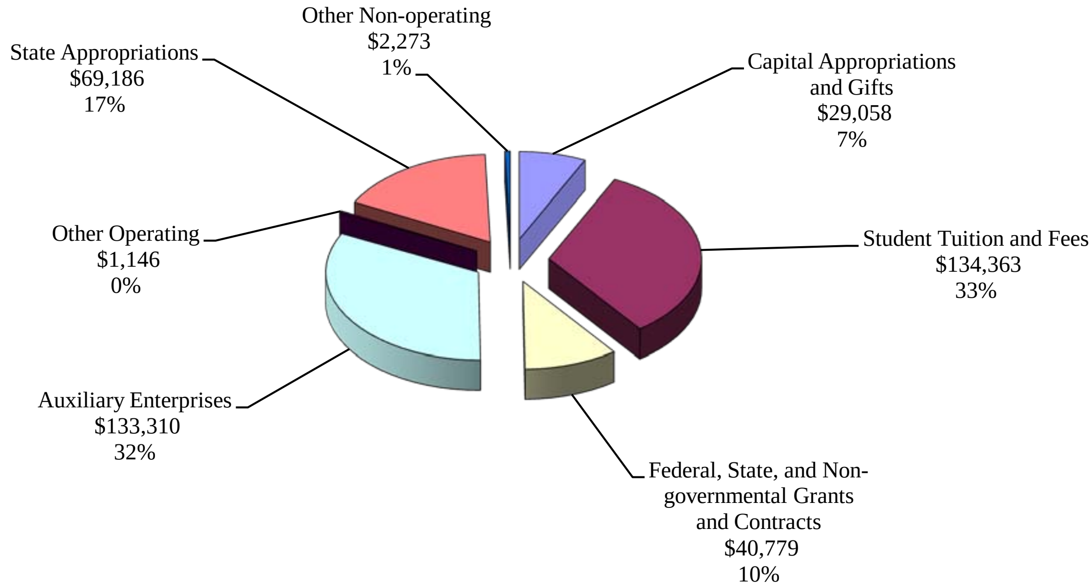
Non-operating revenues are revenues received for which goods and services are not directly provided. State appropriations and gifts are included in this category, but provide substantial support for paying the University's operating expenses. Therefore, the University, like most public institutions, will expect to show an operating loss.

Statement of Revenues, Expenses, and Changes in Net Assets
(In thousands)

| | 2010 | 2009 |
|---|---|---|
| Operating revenues | $296,678 | $278,880 |
| Operating expenses | 359,937 | 349,879 |
| Operating loss | (63,259) | (70,999) |
| Non-operating revenues and expenses | 73,458 | 82,332 |
| Income before other revenues, expenses, gains, or losses | 10,199 | 11,333 |
| Other net revenues | 29,058 | 47,387 |
| Increase in net assets | 39,257 | 58,720 |
| Net assets - beginning of year | 523,075 | 464,355 |
| Net assets - end of year | $562,332 | $523,075 |

Following is a graphic illustration of revenues by source (both operating and non-operating) used to fund the University's activities for the years ended June 30, 2010. As noted above, critical recurring revenue sources such as state and capital appropriations are considered non-operating.

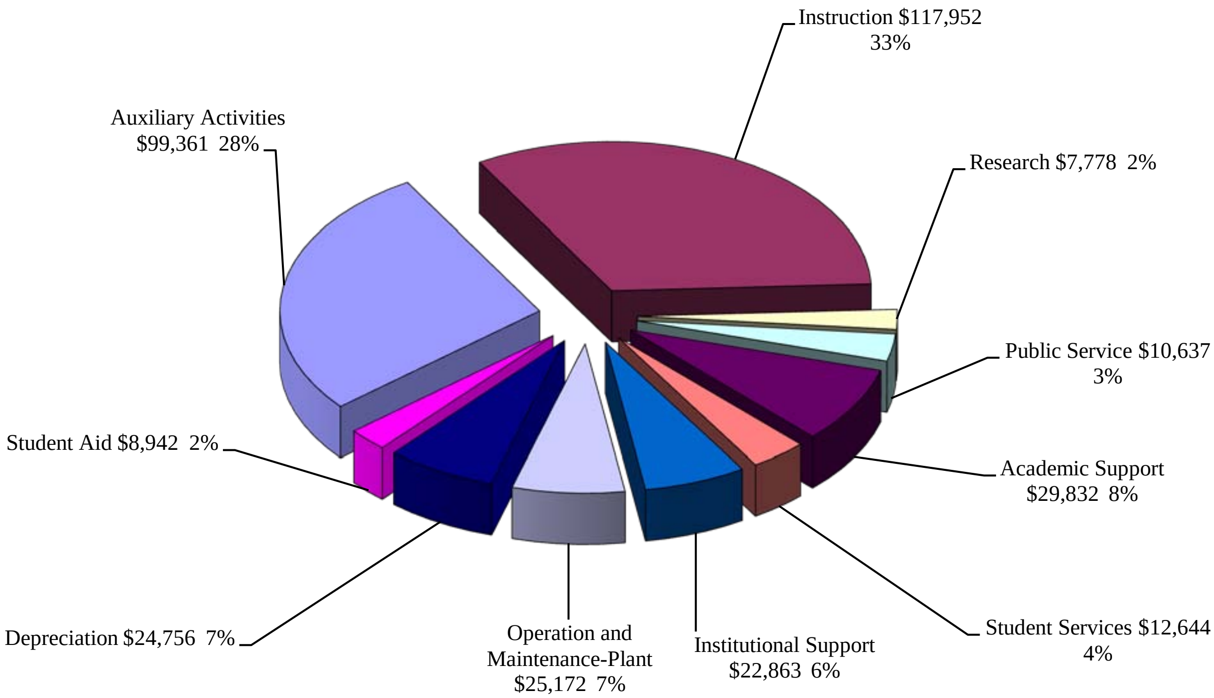
2010
Revenues by Source
(in thousands)




Operating revenues, consisting mostly of tuition and fees and auxiliary enterprises, increased $17,798,000 or six percent from the prior fiscal year. Student tuition and fees, net of scholarship allowances, increased by $8,958,000 in fiscal year 2010. The 2010 tuition increase was due to a combination of average rate increases of five percent and an approximate two percent increase in undergraduate headcount. Auxiliary revenues increased by $7,584,000, or six percent. The increase reflects an approximate three percent rate increase in room, board, and comprehensive fees year over year.

The following graphical illustration presents total operating expenses for fiscal years 2010 by function.

2010
Operating Expenses by Function
(in thousands)




Total 2010 operating expenses increased $10,058,000 or four percent. Compensation expenses, consisting of the natural expense classifications salaries, wages, and fringe benefits, comprise the largest University expense. Compensation expenses comprised 56 and 58 percent of the University's total operating expenses in 2010 and 2009, respectively. Compensation expense remained, primarily due to the Commonwealth's hiring freeze during 2010 and lack of state-wide salary increases. The largest factor driving the increase in operating expenses are Sales and Services expenses, which increased by $6,783,000. Of this increase, approximately $3,573,000 was directly related to the opening of the East Campus Dining Facility in August 2009.

Net non-operating revenue and expenses totaled $73,458,000, a decrease of $8,874,000 from the prior year. The decrease in this category results primarily from the reduction in state appropriations ($11,351,000) and increased reversions of nongeneral funds ($3,027,000) to the commonwealth. These decreases were somewhat offset by federal stabilization funding and increases in Pell grant funding. In 2010, investment income decreased by $1,521,000 as the state only allocated interest on auxiliary cash reserves for the first quarter of 2010 as compared to a full year in 2009. The decreases described above were all part of the state's budget adjustments necessary to accommodate decreases in statewide revenue collections. Other revenues and gains include capital appropriations and contributions, which decreased by $18,792,000 in 2010. The 2009 balance included state funding for the Rockingham Memorial Hospital installment payment. Fiscal year 2009 includedd $37,212,000 in General Obligation Bond funding for the Center for Performing Arts and Music Recital Hall construction, whereas 2010 only includes $6,022,000 related to the Center for Perform Arts and Music Recital Hall construction.

## Statement of Cash Flows

The Statement of Cash Flows presents detailed information about the University's cash activity during the year. Operating cash flows will always be different from the operating loss on the Statement of Revenues, Expenses, and Changes in Net Assets (SRECNA). This difference occurs because the SRECNA is prepared on the accrual basis of accounting and includes non-cash items such as depreciation expense, and the Statement of Cash Flows presents cash inflows and outflows without regard to accrual items. The Statement of Cash Flows assists readers in assessing the ability of an institution to generate future cash flows necessary to meet obligations and evaluate its potential for additional financing.

The statement is divided into five sections. The first section shows the net cash used by the University's operating activities. The next section reflects the cash flows from non-capital financing activities and includes state appropriations for the University's educational and general programs and financial aid. This section reflects the cash received and spent for items other than operating, investing, and capital financing purposes. Cash flows from capital financing activities present cash used for the acquisition and construction of capital and related items. The next section shows cash flows related to purchases, proceeds, and interest received from investing activities. The last section reconciles the net cash used by operating activities to the operating loss reflected on the SRECNA.

Statement of Cash Flows
(in thousands)

| | 2010 | 2009 |
|---|---|---|
| Cash provided/(used) by: | | |
| Operating activities | $ (38,901) | $ (48,004) |
| Non-capital financing activities | 81,529 | 84,499 |
| Capital financing activities | 10,135 | (47,275) |
| Investing activities | 1,391 | 3,422 |
| Net increase/(decrease) in cash | 54,154 | (7,358) |
| Cash – beginning of the year | 105,757 | 113,115 |
| Cash – end of year | $ 159,911 | $ 105,757 |

Major sources of cash from operating activities include student tuition and fees ($134,902,000 in 2010 and $125,352,000 in 2009), auxiliary enterprises receipts ($133,649,000 in 2010 and $125,743,000 in 2009), and grants and contracts ($26,920,000 in 2010 and $25,359,000 in 2009). Major uses of cash include payments for salaries, wages, and fringe benefits ($201,031,000 in 2010 and $200,151,000 in 2009), payments for supplies and services ($93,628,000 in 2010 and $87,945,000 in 2009), and payments for non-capitalized plant improvements and equipment ($18,583,000 in 2010 and $18,371,000 in 2009).

Cash flows from non-capital financing activities include state appropriations for the University's educational and general programs and financial aid of $69,184,000 and $80,538,000 in 2010 and 2009, respectively. The cash flows from capital financing activities section deals with cash used for the acquisition and construction of capital and related items. Primary sources of cash from capital financing activities in 2010 and 2009 include capital appropriations and contributions ($33,052,000 in 2010 and $52,130,000 in 2009) and proceeds from issuance of capital related debt ($76,793,000 in 2010 and $34,334,000 in 2009). Significant cash outflows include purchases and construction of capital assets ($84,670,000 in 2010 and $111,790,000 in 2009) and repayment of principal and interest on capital related debt ($15,075,000 in 2010 and $21,993,000 in 2009).

## Economic Outlook

The University, as a public institution, is subject to many of the economic conditions impacting the Commonwealth of Virginia. Economic factors related to the Commonwealth can be found in the Commonwealth's Comprehensive Annual Financial Report (CAFR). As a public institution, the University receives significant Commonwealth support from operating and capital appropriations. State operating appropriations currently cover 29 percent of operating expenses, excluding auxiliary activities and depreciation. While the Commonwealth has not assigned any new reductions in general fund support for 2011, the 2010-12 biennial budget includes additional reductions in general fund support for the second year of the biennium (2012). The Commonwealth did mitigate the significant impact of reduced general fund support in 2011 on a one-time basis through the allocation of federal economic stimulus funds. Additional stimulus funds are not expected for 2012. The University anticipates that there will be continued pressure on general fund support given the demands on the state budget and constrained revenues. Since there is a direct correlation between the amount of state appropriations and establishment of tuition and fee rates, the University will continue to employ cost containment strategies in order to limit tuition increases. The University is closely monitoring the Governor's Commission on Higher Education Reform, Innovation and Investment to determine the potential impact of commission recommendations on public institution's operations.

The Higher Education Restructuring Act (Act) provides a framework for the University to potentially gain additional decentralized authority from the Commonwealth in financial and administrative operations. In exchange for meeting 11 state goals listed in the Act, the University will be eligible for the immediate benefits of level one autonomy. Benefits include additional flexibility and authority with regard to disposing of property, entering into capital lease agreements, continuing existing memorandums of understanding for decentralized activities, and procurement flexibility. As required by the Act, the University's Board of Visitors passed a resolution committing to these goals in June 2005. In September 2008, the University's Board of Visitors approved management's request to move to level two autonomy under the Higher Education Restructuring Act in the areas of Procurement and Information Technology. The University received this delegated restructuring authority during 2009.

The University also plans to be an active participant in the state's quest to handle the large number of additional college-age students projected for the next several years. As an example of the University's commitment to this projected need, on-campus enrollment headcount is projected to grow to 20,300 students by 2016, an increase of 10 percent over fall 2009.

The University's overall financial position remains strong. As in fiscal year 2009, the University generated an overall increase in net assets during 2010. These increases are indicators of the University's sound and prudent uses of financial resources. Management continues to maintain a close watch over resources and the U.S. economy as a whole to react to unknown internal and external issues and sustain the University's current sound financial position.

# FINANCIAL STATEMENTS

JAMES MADISON UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2010 (with comparative information as of June 30, 2009)

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | James Madison University | Component Unit | James Madison University* | Component Unit* |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents (Note 2) | $ 111,613,999 | $ 1,233,323 | $ 90,186,554 | $ 1,949,320 |
| Securities lending - Cash and cash equivalents (Note 2) | 14,788,465 | - | 12,815,703 | - |
| Short-term investments (Note 2) | 7,970,365 | - | 15,376,026 | - |
| Accounts receivable (Net of allowance for doubtful accounts of $486,873 and $426,852 for 2010 and 2009, respectively) (Note 3) | 7,201,746 | 42,795 | 6,038,300 | 35,392 |
| Contributions receivable (Net of allowance for doubtful contributions of $49,528 and $35,038 for 2010 and 2009, respectively) (Note 3) | - | 2,426,869 | - | 1,716,862 |
| Due from the Commonwealth (Note 4) | 6,797,365 | - | 11,511,278 | - |
| Prepaid expenses | 6,764,361 | 18,235 | 6,352,911 | 36,651 |
| Inventory | 743,795 | - | 747,313 | - |
| Notes receivable (Net of allowance for doubtful accounts of $48,069 and $40,896 for 2010 and 2009, respectively) | 413,624 | - | 435,839 | - |
| Total current assets | 156,293,720 | 3,721,222 | 143,463,924 | 3,738,225 |
| Non-current assets: | | | | |
| Restricted cash and cash equivalents (Note 2) | 48,296,607 | - | 15,570,275 | - |
| Endowment investments (Note 2) | 205,605 | 40,282,987 | 183,852 | 37,755,857 |
| Other long-term investments (Note 2) | 363,026 | 25,513,505 | 325,437 | 17,871,228 |
| Land held for future use | - | 2,485,348 | - | 2,485,348 |
| Contributions receivable (Net of allowance for doubtful contributions of $114,085 and $134,770 for 2010 and 2009, respectively) (Note 3) | - | 5,590,148 | - | 6,603,706 |
| Prepaid expenses | 372,971 | - | 680,004 | - |
| Notes receivable (Net of allowance for doubtful accounts of $202,292 and $183,174 for 2010 and 2009, respectively) | 1,904,569 | - | 1,910,171 | - |
| Capital assets, net: (Note 5) | | | | |
| Non-depreciable | 106,487,583 | 563,991 | 188,478,079 | 312,391 |
| Depreciable | 557,395,339 | 1,003,755 | 409,896,524 | 568,297 |
| Other assets | - | 6,282 | - | 7,211 |
| Total non-current assets | 715,025,700 | 75,446,016 | 617,044,342 | 65,604,038 |
| Total assets | 871,319,420 | 79,167,238 | 760,508,266 | 69,342,263 |
| LIABILITIES | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued expenses (Note 6) | 48,345,247 | 156,656 | 43,152,106 | 171,468 |
| Deferred revenue | 12,508,996 | - | 11,366,401 | - |
| Obligations under securities lending | 22,758,830 | - | 28,191,729 | - |
| Deposits held in custody for others | 3,800,847 | - | 2,012,593 | - |
| Long-term liabilities - current portion (Note 7) | 22,868,867 | 143,564 | 11,480,583 | 154,377 |
| Advance from the Treasurer of Virginia | 50,000 | - | 50,000 | - |
| Total current liabilities | 110,332,787 | 300,220 | 96,253,412 | 325,845 |
| Non-current liabilities (Note 7) | 198,654,679 | 840,684 | 141,180,249 | 1,021,694 |
| Total liabilities | 308,987,466 | 1,140,904 | 237,433,661 | 1,347,539 |

JAMES MADISON UNIVERSITY
STATEMENT OF NET ASSETS
As of June 30, 2010 (with comparative information as of June 30, 2009)

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | James Madison University | Component Unit | James Madison University* | Component Unit* |
| NET ASSETS | | | | |
| Invested in capital assets, Net of related debt | 494,182,057 | 1,567,746 | 467,349,939 | 880,688 |
| Restricted for: | | | | |
| Non-expendable: | | | | |
| Scholarships and fellowships | 285,436 | 28,771,314 | 267,269 | 27,463,978 |
| Research and public service | - | 2,003,679 | - | 1,988,308 |
| Other | - | 11,524,582 | - | 10,875,253 |
| Expendable: | | | | |
| Scholarships and fellowships | 45,839 | 3,160,812 | 49,535 | 1,410,227 |
| Research and public service | 2,117,335 | 1,133,918 | 2,291,175 | 856,800 |
| Debt service | 3,668 | 358,123 | 5,350 | 386,414 |
| Capital projects | 789,772 | 10,776,451 | 1,030,819 | 10,175,747 |
| Loans | 335,156 | - | 349,273 | - |
| Other | - | 12,902,673 | - | 12,191,708 |
| Unrestricted | 64,572,691 | 5,827,036 | 51,731,245 | 1,765,601 |
| Total net assets | $ 562,331,954 | $ 78,026,334 | $ 523,074,605 | $ 67,994,724 |

The accompanying Notes to Financial Statements are an integral part of this statement.
*Certain prior year amounts were restated to agree to current year classifications.

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JAMES MADISON UNIVERSITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the year ended June 30, 2010 (with comparative information for the year ended June 30, 2009)

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | James Madison University | Component Unit | James Madison University* | Component Unit |
| Operating revenues: | | | | |
| Student tuition and fees (Net of scholarship allowances of $9,654,934 and $7,965,327 for 2010 and 2009, respectively) | $ 134,362,802 | $ - | $ 125,405,039 | $ - |
| Gifts and contributions | - | 5,354,277 | - | 5,459,507 |
| Federal grants and contracts | 15,078,430 | - | 13,695,817 | - |
| State grants and contracts | 7,576,678 | - | 8,102,327 | - |
| Non-governmental grants and contracts | 5,203,758 | - | 4,092,994 | - |
| Auxiliary enterprises (Net of scholarship allowances of $7,762,059 and $6,451,764 for 2010 and 2009, respectively) (Note 10) | 133,310,463 | - | 125,726,142 | - |
| Other operating revenues | 1,145,673 | 148,175 | 1,857,258 | 143,614 |
| Total operating revenues | 296,677,804 | 5,502,452 | 278,879,577 | 5,603,121 |
| Operating expenses (Note 11): | | | | |
| Instruction | 117,952,498 | 450,450 | 116,443,611 | 522,283 |
| Research | 7,778,217 | 9,971 | 5,988,271 | 13,448 |
| Public service | 10,636,778 | 147,696 | 11,147,543 | 115,696 |
| Academic support | 29,831,660 | 371,020 | 28,891,013 | 440,894 |
| Student services | 12,644,171 | 78,426 | 12,843,063 | 52,643 |
| Institutional support | 22,863,153 | 3,917,449 | 24,417,245 | 3,357,425 |
| Operation and maintenance - plant | 25,172,333 | 368,231 | 26,788,205 | 332,271 |
| Depreciation | 24,755,766 | 23,461 | 23,111,365 | 18,657 |
| Student aid | 8,942,184 | 2,098,553 | 6,713,791 | 1,942,162 |
| Auxiliary activities (Note 10) | 99,360,569 | 458,708 | 93,534,362 | 920,850 |
| Total operating expenses | 359,937,329 | 7,923,965 | 349,878,469 | 7,716,329 |
| Operating loss | (63,259,525) | (2,421,513) | (70,998,892) | (2,113,208) |
| Non-operating revenues/(expenses): | | | | |
| State appropriations (Note 12) | 69,185,644 | - | 80,536,598 | - |
| Pell grants (Note 1 L.) | 8,271,187 | - | 5,076,195 | - |
| State fiscal stabilization funds (ARRA) (Note 1 L.) | 4,648,818 | - | - | - |
| Gifts | 1,025,172 | - | 960,435 | - |
| Investment income (Net of investment expense of $38,189 and $397,903 for the University and $338,251 and $323,834 for the Foundation for 2010 and 2009, respectively) | 1,246,947 | 8,218,054 | 2,767,977 | (10,150,226) |
| In-Kind support from James Madison University | - | 2,506,494 | - | 2,475,658 |
| Interest on capital asset - related debt | (5,907,522) | (22,746) | (5,910,155) | (26,580) |
| Loss on disposal of plant assets | (1,272,540) | - | (387,258) | - |
| Payment to the Commonwealth | (3,739,118) | - | (711,906) | - |
| Net non-operating revenues/(expenses) | 73,458,588 | 10,701,802 | 82,331,886 | (7,701,148) |
| Income before other revenues, expenses, gains or losses | 10,199,063 | 8,280,289 | 11,332,994 | (9,814,356) |
| Capital appropriations and contributions (Note 13) | 28,533,586 | - | 47,325,370 | - |
| Capital gifts | 484,700 | - | 61,250 | - |
| Additions to permanent endowments | 40,000 | 1,751,321 | - | 1,443,749 |
| Net other revenues | 29,058,286 | 1,751,321 | 47,386,620 | 1,443,749 |
| Increase/(decrease) in net assets | 39,257,349 | 10,031,610 | 58,719,614 | (8,370,607) |
| Net assets - beginning of year, restated (Note 1 P.) | 523,074,605 | 67,994,724 | 464,354,991 | 76,365,331 |
| Net assets - end of year | $ 562,331,954 | $ 78,026,334 | $ 523,074,605 | $ 67,994,724 |

The accompanying Notes to Financial Statements are an integral part of this statement.
*Certain prior year amounts were restated to agree to current year classifications.

JAMES MADISON UNIVERSITY
STATEMENT OF CASH FLOWS
For the year ended June 30, 2010 (with comparative information for the year ended June 30, 2009)

| | 2010 | 2009* |
|---|---|---|
| Cash flows from operating activities: | | |
| Student tuition and fees | $ 134,902,230 | $ 125,352,000 |
| Grants and contracts (Note 1 L.) | 26,920,206 | 25,359,369 |
| Auxiliary enterprises | 133,648,505 | 125,743,018 |
| Other receipts | 1,178,052 | 2,268,262 |
| Payments to employees | (154,141,576) | (151,688,317) |
| Payments for fringe benefits | (46,888,999) | (48,462,334) |
| Payments for services and supplies | (93,627,527) | (87,944,509) |
| Payments for utilities | (13,322,879) | (13,850,187) |
| Payments for scholarships and fellowships | (8,942,184) | (6,713,751) |
| Payments for non-capitalized plant improvements and equipment | (18,583,242) | (18,370,805) |
| Loans issued to students | (444,420) | (59,146) |
| Collections of loans from students | 400,772 | 362,001 |
| Net cash used by operating activities | (38,901,062) | (48,004,399) |
| Cash flows from noncapital financing activities: | | |
| State appropriations | 69,184,286 | 80,537,572 |
| Nonoperating grants and contracts (Note 1 L.) | 12,920,005 | 5,076,195 |
| Payment to the Commonwealth | (3,739,118) | (711,906) |
| Gifts and grants for other than capital purposes | 1,025,171 | 960,435 |
| Loans issued to students and employees | (600) | (2,986) |
| Collections of loans from students and employees | 4,946 | 3,129 |
| Agency receipts | 97,198,980 | 11,379,567 |
| Agency payments | (95,104,411) | (12,742,839) |
| Additions to permanent endowment | 40,000 | - |
| Net cash provided by noncapital financing activities | 81,529,259 | 84,499,167 |
| Cash flows from capital financing activities: | | |
| Capital appropriations and contributions | 33,051,937 | 52,130,138 |
| Proceeds from capital debt | 76,792,509 | 34,334,286 |
| Proceeds from sale of capital assets | 35,540 | 43,882 |
| Purchase of capital assets | (84,669,658) | (111,790,433) |
| Principal paid on capital debt, leases, and installments | (8,480,132) | (15,749,005) |
| Interest paid on capital debt, leases, and installments | (6,594,932) | (6,243,786) |
| Net cash provided/(used) by capital financing activities | 10,135,264 | (47,274,918) |
| Cash flows from investing activities: | | |
| Interest on investments | 1,010 | 99,108 |
| Interest on cash management pools | 1,389,306 | 3,323,370 |
| Net cash provided by investing activities | 1,390,316 | 3,422,478 |
| Net increase in cash | 54,153,777 | (7,357,672) |
| Cash and cash equivalents - beginning of the year | 105,756,829 | 113,114,501 |
| Cash and cash equivalents - end of the year | $ 159,910,606 | $ 105,756,829 |

JAMES MADISON UNIVERSITY
STATEMENT OF CASH FLOWS
For the year ended June 30, 2010 (with comparative information for the year ended June 30, 2009)

| | 2010 | 2009* |
|---|---|---|
| RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES: | | |
| Operating loss | $ (63,259,525) | $ (70,998,892) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| Depreciation expense | 24,755,766 | 23,111,365 |
| Changes in assets and liabilities: | | |
| Receivables, net | (351,446) | (838,726) |
| Due from the Commonwealth | (12,889) | 162,925 |
| Prepaid expenses | (104,417) | (1,738,996) |
| Inventory | 3,518 | (29,397) |
| Notes receivable, net | 33,783 | 319,990 |
| Accounts payable and accrued expenses | (1,763,472) | 184,129 |
| Deferred revenue | 1,142,595 | 463,875 |
| Advance from the Treasurer of Virginia | - | (12,500) |
| Accrued compensated absences | (49,377) | 155,771 |
| Accrued retirement plan | 749,669 | 1,197,271 |
| Federal loan programs contributions refundable | (45,267) | 18,786 |
| Net cash used by operating activities | $ (38,901,062) | $ (48,004,399) |
| NON-CASH INVESTING, NONCAPITAL FINANCING, AND CAPITAL AND RELATED FINANCING TRANSACTIONS: | | |
| Gift of capital assets | $ 484,700 | $ 61,250 |
| Amortization of bond premium/discount and gain/loss on debt refinancing | $ (389,103) | $ (100,469) |
| Capitalization of interest revenue and expense, net | $ (1,257,735) | $ (1,024,156) |
| Change in fair value of investments recognized as a component of interest income | $ 54,997 | $ (178,630) |
| Loss on disposal of capital assets | $ (1,308,080) | $ (431,140) |

The accompanying Notes to Financial Statements are an integral part of this statement.
*Certain prior year amounts were restated to agree to current year classifications.

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# NOTES TO FINANCIAL STATEMENTS

JAMES MADISON UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Reporting Entity

The University is a comprehensive university that is part of the Commonwealth's statewide system of public higher education. The University's Board of Visitors, appointed by the Governor, is responsible for overseeing governance of the University. A separate report is prepared for the Commonwealth, which includes all agencies, higher education institutions, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The University is a component unit of the Commonwealth and is included in the basic financial statements of the Commonwealth.

In accordance with Governmental Accounting Standards Board (GASB) Statement 39, *Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement 14, *The Financial Reporting Entity*, the James Madison University Foundation, Inc. meets the criteria which qualify it as a component unit of the University. The Foundation is a legally separate, tax-exempt organization formed to promote the achievements and further the aims and purposes of the University. The Foundation accomplishes its purposes through fundraising and funds management efforts that benefit the University and its programs. The 20-member board of the Foundation is self-perpetuating and consists of friends and supporters of the University. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is discretely presented in the financial statements.

During the year ended June 30, 2010, the Foundation distributed $3,880,885 to the University for both restricted and unrestricted purposes. Separate financial statements for the Foundation can be obtained by writing the Chief Financial Officer, JMU Foundation, Inc., MSC 8501, Harrisonburg, Virginia 22807.

### B. Financial Statement Presentation

The financial statements have been prepared in accordance with GASB Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements and Management's Discussion and Analysis of Public College and Universities*.

GASB Statements 34 and 35 standards are designed to provide financial information that responds to the needs of three groups of primary users of general-purpose external financial reports: the citizenry, legislative and oversight bodies, and investors and creditors. Under this guidance, the University is required to include a management's discussion and analysis (MD&A), basic financial statements, and notes to the financial statements.

The Foundation is a private, non-profit organization that reports under Financial Accounting Standards Board (FASB) standards, including FASB Statement 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition and presentation features. No modifications have been made to the Foundation's financial information in the University's financial reporting entity for these differences.

C. Basis of Accounting

The University follows GASB Statement 34 requirements for reporting by special-purpose governments engaged only in business-type activities. Accordingly, the financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. All significant intra-agency transactions have been eliminated.

The University's accounting policies conform with generally accepted accounting principles as prescribed by the GASB, including all applicable GASB pronouncements, as well as applicable FASB statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The University has the option to apply all FASB pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected not to apply the FASB pronouncements issued after the applicable date.

D. Cash Equivalents and Investments

In accordance with GASB Statement 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, the University considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

In accordance with GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, purchased investments, interest-bearing temporary investments classified with cash, and investments received as gifts are recorded at fair value. All investment income, including changes in the fair value of investments (unrealized gains and losses), is reported as non-operating revenue in the Statement of Revenues, Expenses, and Changes in Net Assets.

E. Capital Assets

Capital assets consisting of land, buildings, infrastructure, computer software and equipment are stated at cost at date of acquisition, or fair market value at date of donation for gifts. Library materials are valued using published average prices for library acquisitions. The University capitalizes construction costs that have a value or cost in excess of $200,000 at the date of acquisition. Renovation costs are capitalized when expenses total more than $200,000, the asset value significantly increases, or the useful life is significantly extended. Routine repairs and maintenance are charged to operating expense.

Equipment is capitalized when the unit acquisition cost is $5,000 or greater and the estimated useful life is more than two years. Computer software is capitalized when the unit acquisition or development costs are $25,000 or greater and the estimated useful life is more than two years. Expenses related to construction are capitalized at actual cost as they are incurred (construction-in-progress). Construction period interest cost in excess of earning associated with related debt proceeds is capitalized as a component of the final asset.

Collections of works of art and historical treasures are capitalized at cost or fair market value at the date of donation. These collections are considered inexhaustible and therefore are not depreciated.

Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expense categories. Useful lives by asset categories are listed below:

| | |
|---|---|
| Buildings | 50 years |
| Other improvements and infrastructure | 20 years |
| Equipment | 5-20 years |
| Computer software | 5 years |
| Library material | 5 years |

GASB Statement 51, *Accounting and Financial Reporting for Intangible Assets*, became effective on July 1, 2009. Prior to implementation of this standard, computer software was reported as equipment in accordance with SOP 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. As of July 1, 2009, the computer software balance ($8,593,192) and related accumulated depreciation ($6,525,660) was reclassified from Equipment to Computer Software (see Note 5).

F. Inventories

Inventories are valued at the lower of cost (generally determined on the first-in, first-out method) or market and consist primarily of expendable supplies held for consumption.

G. Non-current Cash and Investments

Cash and investments that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital and other non-current assets are classified as non-current assets in the Statement of Net Assets. Assets that will be used to liquidate current liabilities, including capital project liabilities that are expected to be paid within one year, are classified as current assets.

H. Deferred Revenue

Deferred revenue represents revenues collected but not earned as of June 30. This consists primarily of revenue for student tuition and certain auxiliary activities accrued in advance of the semester, and advance payments on grants and contracts.

I. Accrued Compensated Absences

The amount of leave earned, but not taken by non-faculty salaried employees is recorded as a liability on the Statement of Net Assets. The amount reflects, as of June 30, all unused vacation leave, sabbatical leave, and the amount payable upon termination under the Commonwealth's sick leave payout policy. The applicable share of employer-related taxes payable on the eventual termination payments is also included.

J. Federal Financial Assistance Programs

The University participates in federally funded Pell Grants, Supplemental Educational Opportunity Grants, and federal work-study and Perkins loans programs. Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the Office of Management and Budget Revised Circular A-133, *Audit of States, Local Governments and Non-Profit Organizations*, and the *Compliance Supplement*.

K. Net Assets

GASB Statement 34 requires that the Statement of Net Assets report the difference between assets and liabilities as net assets, not fund balances. Net assets are classified as invested in capital assets, net of related debt, restricted, and unrestricted. "Invested in capital assets, net of related debt" consists of capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when constraints on the net asset use are either externally imposed by creditors, grantors, or contributors or imposed by law. Unrestricted net assets consist of net assets that do not meet the definitions above. When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to use restricted resources first, then unrestricted resources as needed.

L. Revenue and Expense Classifications

Operating revenues include activities that have the characteristics of exchange transactions, such as: (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises, net of scholarship allowances; and (3) federal, state, and non-governmental grants and contracts.

Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts, and other revenue sources that are defined as non-operating revenues by GASB Statement 9 and GASB Statement 34, such as state appropriations and investment and interest income. Beginning in 2008, federal Pell grant receipts are reported on the line item "non-operating grants and contracts" on the Statement of Revenues, Expenses, and Changes in Net Assets. Pell grants are considered as non-operating because the University's administrative involvement with the grant requirements have the characteristics of a non-exchange transaction. 2010 non-operating grants and contracts also include federal American Reinvestment and Recovery Act funds passed through the state Department of Education to the University.

Non-operating expenses include interest on debt related to the purchase of capital assets, losses on the disposal of capital assets, and nongeneral fund transfer payments to the Commonwealth. All other expenses are classified as operating expenses.

M. Scholarship Discounts and Allowances

Student tuition and fees revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of Revenue, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University and the amount that is paid by students and/or third parties making payments on the student's behalf. Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). The alternative method proportionately calculates scholarship discounts and allowances on a University-wide basis by allocating cash payments to students, excluding payments for services, on the ratio of total aid to aid not considered to be third party aid.

N. Commonwealth Equipment and Capital Project Reimbursement Programs

The Commonwealth has established several programs to provide state-supported institutions of higher education with bond proceeds for financing the acquisition and replacement of instructional and research equipment and facilities. During fiscal year 2010, funding has been provided to the University from three programs; general obligation bonds 9(b), and two programs (21st Century and Equipment Trust Fund) managed by the Virginia College Building Authority (VCBA). The VCBA issues bonds and uses the proceeds to reimburse the University and other institutions of higher education for expenses incurred in the acquisition of equipment and facilities.

The Statement of Net Assets line item "Due from the Commonwealth" includes pending reimbursements at year-end from these programs, as further described in Note 4. The Statement of Revenue, Expenses, and Changes in Net Assets line item "Capital appropriations and contributions" includes reimbursements during the year for the acquisition of equipment and facilities under these programs, as further described in Note 13.

O. Comparative Data

The University presents its financial information on a comparative basis. The basic financial statements include certain prior year summarized information in total, but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, the prior year information should be read in conjunction with the University's financial statements for the year ended June 30, 2009, from which the summarized information was derived.

P. Restatement of Net Assets

Certain net assets originally reported in the University's financial statements as of June 30, 2009, have been restated to reflect the recognition of accrued interest payable. The University, as well as several other Virginia colleges and universities, did not previously recognize accrued interest related to bond debt. To achieve consistency in reporting, the Department of Accounts decided to include accrued interest for all of its component units in the Commonwealth's 2010 financial statements. To enhance comparability, 2009 financial statement lines restated include "Accounts payable and accrued expenses" and "Interest on capital asset – related debt."

| | |
|---|---|
| Net assets as previously reported June 30, 2009 | 524,255,489 |
| Recognition of accrued interest payable | (1,180,884) |
| Net assets balance at July 1, 2009 | $523,074,605 |

## 2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

GASB Statement 40, *Deposit and Investment Risk Disclosures*, became effective for the fiscal year ending June 30, 2005. It amends GASB Statement 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*. GASB Statement 40 eliminates the custodial credit risk disclosures for Category 1 and 2 deposits and investments. However, this statement does not change the disclosure requirements for Category 3 deposits and investments. The University has no Category 3 deposits or investments for 2010. The following risk disclosures are required by GASB Statement 40:

- Credit Risk – The risk that an issuer or other counterparty to an investment will not fulfill its obligations. This statement requires the disclosure of the credit quality ratings on any investments subject to credit risk.

- Concentration of Credit Risk – The risk of loss attributed to the magnitude of a government's investment in a single issuer. This statement requires disclosure of investments with any one issuer with more than five percent of total investments. However, investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement.

- Interest Rate Risk – The risk that interest rate changes will adversely affect the fair value of an investment. This statement requires disclosure of maturities for any investments subject to interest rate risk. The University does not have an interest rate risk policy.

- Foreign Currency Risk – The risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The University had foreign deposits of $2,235,996 in 2010.

### A. Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., Code of Virginia, all state funds of the University are maintained by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Except for cash held in foreign banks, cash deposits held by the University are maintained in accounts that are collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400, et seq., Code of Virginia. These amounts are insured in accordance with the banking regulations of the respective countries where the funds are maintained. In accordance with the GASB Statement 9's definition of cash and cash equivalents, cash represents cash with the Treasurer of Virginia, cash on hand, cash deposits, including certificates of deposits and temporary investments with original maturities of 90 days or less, and cash equivalents under the Commonwealth's securities lending and state non-arbitrage programs.

B. Investments

The Board of Visitors established the University's investment policy. Authorized investments are set forth in the Investment of Public Funds Act, Section 2.2-4500 through 2.2-4517, et seq., Code of Virginia. Investments fall into two groups: short-term and long-term. Short-term investments have an original maturity of over 90 days but less than or equal to one year. Long-term investments have an original maturity greater than one year.

| | |
|---|---|
| Cash and cash equivalents: | |
| Cash with the Treasurer of Virginia | $ 85,781,348 |
| Cash on hand and deposits with financial institutions (including money market and certificates of deposit) | 16,188,470 |
| Collateral held for securities lending | 14,788,465 |
| Cash equivalents with the Treasurer of Virginia | 3,424 |
| Cash equivalents with the Bank of New York | 57,937,364 |
| Total | $174,699,071 |

| | |
|---|---|
| Investments: | |
| Collateral held for securities lending (short-term) | $ 7,970,365 |
| Investments not with the Treasurer of Virginia | 568,631 |
| Total | $ 8,538,996 |

For 2010, investments not with Treasurer of Virginia include $568,631 in unrated mutual funds with maturity less than one year.

C. James Madison University Foundation Cash and Investments

The following information is provided with respect to the Foundation's cash and cash equivalents and investments at June 30, 2010. The Foundation considers cash in demand deposit accounts and short-term certificates of deposit to be cash equivalents. The balances in these accounts are subject to electronic transfer for investment purposes and at times exceed federally insured limits. However, the Foundation does not believe it is subject to any significant credit risk as a result of these deposits.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in the change in unrestricted net assets unless the income or loss is restricted by donor or law.

The Investment Committee of the Foundation's Board of Directors establishes the investment policies, objectives, and guidelines. The major portions of the investments are maintained in a portfolio managed by the Foundations' investment advisor, the Northern Trust Corporation. All investments, with the exception of the life insurance policies, are considered Category 1 investments and represent insured or registered securities held by the

Foundation or its agent in the Foundation's name. Life insurance policies are not categorized as to credit risk. The Foundation's investments by type of security are as follows:

| | Fair Value | Cost |
|---|---|---|
| Cash and cash equivalents | $ 9,870,170 | $ 9,870,170 |
| Common stock | 5,465,706 | 5,652,626 |
| Mutual funds | 40,334,864 | 38,633,269 |
| Hedge funds | 9,554,765 | 9,540,000 |
| Life insurance policies | 371,718 | - |
| U.S. government securities | 199,269 | 199,269 |
| Total | $65,796,492 | $63,895,334 |

D. Securities Lending Transactions

GASB Statement 28, *Accounting and Financial Reporting for Securities Lending Transactions*, establishes accounting and financial reporting standards for security lending transactions. In these transactions, governmental entities transfer securities to broker-dealers and other entities for collateral and simultaneously agree to return the collateral for the same securities in the future.

The investments under securities lending (reported as either "cash equivalents" or "short-term investments") and the securities lending transactions reported on the financial statements represent the University's allocated share of securities received for securities lending transactions held in the General Account of the Commonwealth. The Commonwealth's policy is to record unrealized gains and losses in the General Fund in the Commonwealth's basic financial statements. When gains and losses are realized, the actual gains and losses are recorded by the affected agencies. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide basis in the Commonwealth of Virginia's CAFR.

## 3. ACCOUNTS AND CONTRIBUTIONS RECEIVABLE

Accounts receivable consisted of the following at June 30, 2010:

| | |
|---|---|
| Student tuition and fees | $ 1,416,427 |
| Auxiliary enterprises | 924,427 |
| Federal, state, and non-governmental grants and contracts | 4,212,251 |
| Unreimbursed capital expenses | 811,999 |
| Other activities | 323,515 |
| Total | 7,688,619 |
| Less: allowance for doubtful accounts | 486,873 |
| Net accounts receivable | $7,201,746 |

The Foundation's contributions receivable at June 30, 2010 is summarized below:

| | |
|---|---|
| Due in less than one year | $2,476,397 |
| Due between one and five years | 5,723,097 |
| Due in more than five years | 354,551 |
| Total | 8,554,045 |
| Less: present value discount (two percent - six percent) | 373,415 |
| Less: allowance for doubtful accounts | 163,613 |
| Net contributions receivable | $8,017,017 |

4. DUE FROM THE COMMONWEALTH

Due from the Commonwealth consisted of the following at June 30, 2010:

| | |
|---|---|
| Treasury programs reimbursement due: | |
| Equipment Trust Fund | $1,961,606 |
| 21st Century | 3,827,610 |
| General Obligation Bonds | 30,000 |
| Interest on Educational and General funds and Small Purchase Credit/Travel Cards | 899,560 |
| Appropriations available – Capital projects | 75,731 |
| Appropriations available – Financial aid programs | 2,858 |
| Total | $6,797,365 |

5. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the years ending June 30, 2010 is presented as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance |
|---|---|---|---|---|
| Non-depreciable capital assets: | | | | |
| Land | $ 50,492,125 | $ 1,195,701 | $ - | $ 51,687,826 |
| Inexhaustible artwork and historical treasures | 1,695,079 | - | - | 1,695,079 |
| Construction-in-progress | 136,290,875 | 84,483,851 | 167,670,048 | 53,104,678 |
| Total non-depreciable capital assets | 188,478,079 | 85,679,552 | 167,670,048 | 106,487,583 |
| Depreciable capital assets: | | | | |
| Buildings | 496,745,468 | 155,624,077 | 2,821,903 | 649,547,642 |
| Infrastructure | 40,083,720 | 4,899,974 | 11,250 | 44,972,444 |
| Computer software | 8,593,192 | 966,415 | 2,069,016 | 7,490,591 |
| Equipment | 48,149,929 | 6,255,799 | 2,005,702 | 52,400,026 |
| Other improvements | 24,189,018 | 2,714,100 | 652,984 | 26,250,134 |
| Library materials | 44,942,519 | 3,315,345 | 1,272,492 | 46,985,372 |
| Total depreciable capital assets | 662,703,846 | 173,775,710 | 8,833,347 | 827,646,209 |

| | Beginning Balance | Additions | Reductions | Ending Balance |
|---|---|---|---|---|
| Less accumulated depreciation for: | | | | |
| Buildings | 155,016,296 | 13,917,125 | 1,524,238 | 167,409,183 |
| Infrastructure | 19,717,638 | 1,916,826 | 11,250 | 21,623,214 |
| Computer software | 6,525,660 | 812,969 | 1,971,769 | 5,366,860 |
| Equipment | 28,744,331 | 3,699,710 | 1,910,422 | 30,533,619 |
| Other improvements | 7,907,702 | 1,202,464 | 622,048 | 8,488,118 |
| Library materials | 34,895,695 | 3,206,672 | 1,272,491 | 36,829,876 |
| Total accumulated depreciation | 252,807,322 | 24,755,766 | 7,312,218 | 270,250,870 |
| Depreciable capital assets, net | 409,896,524 | 149,019,944 | 1,521,129 | 557,395,339 |
| Total capital assets, net | $598,374,603 | $234,699,496 | $169,191,177 | $663,882,922 |

The Foundation's net capital assets consist of $1,467,155 in property and equipment, and $100,591 in collections of historical artifacts for the year ending June 30, 2010.

## 6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2010:

| | |
|---|---|
| Employee salaries, wages, and fringe benefits payable | $24,167,444 |
| Vendors and suppliers accounts payable | 3,226,087 |
| Capital projects accounts and retainage payable | 18,728,357 |
| Accrued interest payable on bond debt | 2,223,359 |
| Total accounts payable and accrued expenses | $48,345,247 |

## 7. NON-CURRENT LIABILITIES

The University's non-current liabilities consist of long-term debt (further described in Note 8), accrued supplemental retirement plan (further described in Note 9), and other non-current liabilities. A summary of changes in non-current liabilities for the years ending June 30, 2010 is presented as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| Long-term debt: | | | | | |
| Revenue bonds | $ 64,098,566 | $77,169,178 | $ 4,541,791 | $ 136,725,953 | $ 7,082,491 |
| General obligation bonds | 68,613,630 | 4,344,799 | 8,764,497 | 64,193,932 | 4,253,024 |
| Installment purchases | 8,377,777 | - | - | 8,377,777 | 8,377,777 |
| Total long-term debt | 141,089,973 | 81,513,977 | 13,306,288 | 209,297,662 | 19,713,292 |
| Accrued retirement plan | 3,804,189 | 2,412,665 | 1,662,996 | 4,553,858 | 83,800 |
| Accrued compensated absences | 5,333,879 | 3,033,840 | 3,083,217 | 5,284,502 | 3,071,775 |
| Federal loan program contributions | 2,432,791 | - | 45,267 | 2,387,524 | - |
| Total long-term liabilities | $152,660,832 | $86,960,482 | $18,097,768 | $221,523,546 | $22,868,867 |

## 8. LONG-TERM DEBT

The University has issued two categories of bonds pursuant to Section 9 of Article X of the Constitution of Virginia. Section 9(d) bonds are revenue bonds, which are limited obligations of the University payable exclusively from pledged general revenues and are not debt of the Commonwealth, legally, morally, or otherwise. Pledged General Fund revenues include General Fund appropriations, tuition and fees, auxiliary enterprise revenues, and other revenues not required by law to be used for another purpose. The University issued 9(d) bonds directly through underwriters and participates in the Public Higher Education Financing Program (Pooled Bond Program) created by the Virginia General Assembly in 1996. Through the Pooled Bond Program, the Virginia College Building Authority (VCBA) issues 9(d) bonds and uses the proceeds to purchase debt obligations (notes) of the University and various other institutions of higher education. The University's general revenue also secures these notes.

Section 9(c) bonds are general obligation bonds issued by the Commonwealth on behalf of the University, which are secured by the net revenues of the completed project and the full faith, credit, and taxing power of the Commonwealth.

| Description | Interest Rates (%) | Maturity | 2010 |
|---|---|---|---|
| Revenue bonds: | | | |
| Dormitory, Series 1998A | 4.0 - 4.80 | 2012 | 1,515,000 |
| Dormitory, Series 2004B | 5.00 | 2014 | 1,610,000 |
| Dormitory, Series 2007B | 4.0 – 5.0 | 2019 | 4,880,000 |

| Description | Interest Rates (%) | Maturity | 2010 |
|---|---|---|---|
| Revenue bonds: | | | |
| Parking, Series 2004B | 3.00 – 5.00 | 2020 | 4,150,000 |
| Parking, Series 2006A | 3.54 – 5.00 | 2027 | 7,765,000 |
| Student center, Series 2004B | 3.00 – 5.00 | 2020 | 6,385,000 |
| Recreation, Series 2003A | 2.92 | 2013 | 3,850,000 |
| Recreation, Series, 2006A | 3.54 – 5.00 | 2027 | 3,585,000 |
| Property acquisition, Series 2002A | 3.00 - 5.00 | 2013 | 750,000 |
| Athletics, Series 2003A | 2.00 – 5.00 | 2014 | 855,000 |
| Property acquisition, Series 2007A | 4.5 – 5.0 | 2028 | 9,890,000 |
| Multipurpose Recreation Fields, Series 2009A | 3.0 – 5.0 | 2029 | 6,655,000 |
| Softball/Baseball Complex, Series 2009A | 3.0 – 5.0 | 2029 | 6,435,000 |
| Renov/Expand Athletics/Recreation 2009B | 2.0 – 5.0 | 2030 | 27,460,000 |
| Renov/Expand Bridgeforth Stadium 2009B | 2.0- 5.0 | 2030 | 43,040,000 |
| Total revenue bonds | | | 128,825,000 |
| Bond premium | | | 7,968,375 |
| Deferred loss on refinancing | | | (67,422) |
| Revenue bonds payable | | | 136,725,953 |
| General obligation revenue bonds: | | | |
| Dormitory and dining hall: | | | |
| Series 2002R | 2.50 - 5.00 | 2013 | 1,144,084 |
| Series 2001A | 4.00 | 2011 | 270,000 |
| Series 2004B | 2.00 – 5.00 | 2020 | 12,193,085 |
| Series 2002A | 2.50 - 5.00 | 2013 | 585,000 |
| Series 2006B | 4.0 – 5.0 | 2026 | 3,550,000 |
| Series 2007B | 4.0 – 5.0 | 2027 | 2,015,000 |
| Series 2007B | 4.0 – 5.0 | 2027 | 18,420,000 |
| Series 2008B | 3.0 -5.0 | 2028 | 18,195,000 |
| Series 2009C | 3.0 – 4.0 | 2021 | 457,624 |
| Series 2009C | 3.0 – 4.0 | 2022 | 2,137,175 |
| Series 2009D | 2.5 – 5.0 | 2022 | 1,750,000 |

| Description | Interest Rates (%) | Maturity | 2010 |
|---|---|---|---|
| General obligation revenue bonds: | | | |
| Student center: | | | |
| Series 1998R | 3.75 - 5.00 | 2013 | 1,328,547 |
| Series 2008B | 3.0 | 2013 | 284,791 |
| Total general obligation revenue bonds | | | 62,330,306 |
| Bond premium | | | 2,120,703 |
| Deferred loss on refinancing | | | (257,077) |
| General obligation bonds payable | | | 64,193,932 |
| Total bonds payable | | | 200,919,885 |
| Installment purchases payable | 4.0 | 2011 | 8,377,777 |
| Total | | | $209,297,662 |

Long-term debt as of June 30, 2010 matures as follows:

| | Principal | Interest |
|---|---|---|
| 2011 | $ 19,713,292 | $ 10,504,107 |
| 2012 | 11,807,684 | 8,431,191 |
| 2013 | 12,365,643 | 7,915,202 |
| 2014 | 10,026,161 | 7,363,771 |
| 2015 | 10,460,541 | 6,898,886 |
| 2016-2020 | 54,138,174 | 27,024,211 |
| 2021-2025 | 48,550,555 | 15,633,886 |
| 2026-2030 | 42,235,612 | 4,373,019 |
| Total | $209,297,662 | $88,144,273 |

A. Installment Purchases Payable

In December 2005, the University entered into an installment purchase agreement with Rockingham Memorial Hospital for purchase of the hospital's premises primarily located at 235 Cantrell Avenue, Harrisonburg, Virginia. This purchase included seven buildings containing approximately 623,000 square feet, six paved parking lots, 2 multi-story parking decks, and two converted residences to offices, all situated on approximately 15.9 acres of land. The total purchase price was $50,600,000, with the initial installment payment of $8,000,000 made at settlement. $12,000,000 installments were made in both 2007 and 2008, and another installment of $8,600,000 was made in 2009. The final payment of $10,000,000 was originally scheduled for December 2009; however, the hospital requested an extension in order facilitate their move and to occupy the Cancer Center Building for an additional year. The University granted the extension and the final installment payment is now scheduled for December 2010.

The interest expense obligation has been estimated using an imputed rate of 4.0 percent. The value of the $10,000,000 liability (net of imputed interest) at June 30, 2010, was $8,377,777. Funding sources for the purchase included $32,000,000 from state general funds and $8,600,000 from the VCBA 21st Century program, with the remaining $10,000,000 planned from bond proceeds and auxiliary reserve funds. The state appropriated $8,000,000 in General Funds for the initial payment in fiscal year 2005 and $12,000,000 in both fiscal years 2007 and 2008. The 2009 general fund appropriation of $8,600,000 was converted to VCBA 21st Century funding.

B. Deferral on Debt Defeasance

In accordance with GASB Statement 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, for current refundings and advance refundings resulting in defeasance of debt, the difference between the new and old debt (accounting gain or loss) is deferred and amortized as a component of interest expense. For each of the current or advance refundings noted below, the accounting gain or loss is amortized to interest expense over the life of the new debt.

The November 2004 9(c) issue was considered an advance refunding and resulted in the recognition of a deferred accounting gain of $157,952 in fiscal year 2005. Amortization of the accounting gain resulting from the defeasance was $41,416 for fiscal year 2010.

The October 2004 9(d) issue was considered an advance refunding and resulted in the recognition of a deferred accounting loss of $470,000 in fiscal year 2005. Amortization of the accounting loss resulting from the defeasance was $50,000 for fiscal year 2010.

The March 2003 9(d) issue was considered a current refunding and resulted in the recognition of a deferred accounting loss of $475,000 in fiscal year 2003. Amortization of the accounting loss resulting from the defeasance was $10,000 for fiscal year 2010.

The June 2003 9(c) issue was considered a current refunding and resulted in the recognition of a deferred accounting gain of $151,013 in fiscal year 2003. Amortization of the accounting gain resulting from defeasance was $14,647 for fiscal year 2010.

The October 2002 9(c) issue was considered a current refunding and resulted in the recognition of a deferred accounting gain of $140,555 in fiscal year 2003. Amortization of the accounting gain resulting from the defeasance was $2,909 for fiscal year 2010.

The October 2007 9 (d) issue was considered a current refunding and resulted in the recognition of a deferred accounting loss of $97,499 in fiscal year 2008. Amortization of the accounting loss resulting from the defeasance was $13,154 for fiscal year 2010.

The November 2008 9(c) issue was considered a current refunding and resulted in the recognition of a deferred accounting loss of $93,031 in fiscal year 2009. Amortization of the accounting loss resulting from the defeasance was $23,258 for fiscal year 2010.

In November 2009, the Treasury Board, on behalf of the University, issued $2,594,799 of General Obligation Refunding Bonds, Series 2009C, with interest rates of 3.0 percent – 4.0 percent. The bonds, issued at a premium of $253,276, were used to refund $2,730,000 of outstanding General Obligation Bonds, Series 2001 and 2002, with an interest rate of 4.0 percent – 5.0 percent. The advance refunding resulted in the recognition of a deferred accounting loss of $211,994 in fiscal year 2010, which is being amortized to interest expense over the life of the new debt. Though advance refunding resulted in the recognition of an accounting loss, the University in effect reduced its aggregate debt service obligation by $313,012 over the next 12 years and obtained an economic gain (equal to the difference between the present values of the old and new debt service payments) of $285,465.

In November 2009, the Treasury Board, on behalf of the University, issued $1,750,000 of General Obligation Refunding Bonds, Series 2009D, with interest rates of 2.5 percent – 5.0 percent. The bonds, issued at a premium of $321,443, were used to refund $1,750,000 of outstanding General Obligation Bonds, Series 2006B, with an interest rate of 4.0 percent – 5.0 percent. The advance refunding resulted in the recognition of a deferred accounting loss of $318,141 in fiscal year 2010, which is being amortized to interest expense over the life of the new debt. Though advance refunding resulted in the recognition of an accounting loss, the University in effect reduced its aggregate debt service obligation by $34,028 over the next 12 years and obtained an economic gain (equal to the difference between the present values of the old and new debt service payments) of $34,057.

For financial reporting purposes, the bonds designated above as being refunded are considered to be defeased and have been removed from the non-current liabilities line in the Statement of Net Assets. Any related assets in escrow have similarly been excluded.

C. Long-term Debt Defeasance

In prior years, in accordance with GASB Statement 7, *Advance Refundings Resulting in the Defeasance of Debt*, the University excluded from its financial statements the assets in escrow and the Section 9(c) or 9(d) bonds payable that were defeased "in-substance." For the year ended June 30, 2010, bonds payable considered defeased in previous years have all been called and paid, resulting in no balances considered defeased.

D. Foundation Debt

The Foundation's long-term debt consists of $387,054 outstanding at June 30, 2010, in Series 1999 Industrial Development Authority Revenue bonds, interest at 5.32 percent, and maturing through 2015.

## 9. SUPPLEMENTAL RETIREMENT PLAN

Effective January 1, 1997, the University established a Supplemental Retirement Plan for tenured faculty members. The plan was designed to provide flexibility in the allocation of faculty positions. The plan is a qualified plan within the meaning of section 401(c) of the Internal Revenue Code of 1986 (the Code) and is a governmental plan within the meaning of section 414(d) of the Code. Since it is a governmental plan, the plan is not subject to the Employee Retirement Income Security Act of 1974 as amended. Since inception, 175 faculty members have elected to enroll in the plan. As of June 30, 2010, 63 participants remain, including 15 new participants who retired under this plan during fiscal year 2010 and 1 new participant who is scheduled to retire under this plan during fiscal year 2011. In order to satisfy IRS requirements, a trust fund has been established as means to make the payments to the plan participants. The University prepaid $1,561,504 of the fiscal year 2011-plan contribution in 2010. The plan payment schedule is as follows:

| Year Ending June 30, | Supplemental Plan Obligations |
|---|---|
| 2011 | $ 83,800 |
| 2012 | 1,587,996 |
| 2013 | 1,197,827 |
| 2014 | 931,026 |
| 2015 | 682,452 |
| 2016 | 70,757 |
| Total | $ 4,553,858 |

## 10. AUXILIARY ACTIVITIES

Auxiliary operating revenues and expenses consisted of the following for the year ended June 30, 2010. The University used auxiliary revenues and cash reserves to pay debt service and capitalized improvements of $13,973,042 and $6,503,959. Those amounts are not included in the auxiliary operating expenses below.

| | |
|---|---|
| Revenues: | |
| Room contracts, net of scholarship allowances of $1,722,855 | $ 24,311,679 |
| Food service contracts, net of scholarship allowances of $2,246,553 | 31,779,338 |
| Comprehensive fee, net of scholarship allowances of $3,792,651 | 53,650,318 |
| Food service commissions | 8,570,310 |
| Parking fees and fines | 3,018,539 |
| Other student fees and sales and services | 11,980,279 |
| Total auxiliary enterprises revenues | $133,310,463 |
| Expenses: | |
| Residential facilities | $ 18,034,334 |
| Dining operations | 41,514,440 |
| Athletics | 19,432,317 |
| Parking services | 2,187,361 |
| Health services | 3,352,832 |
| Student unions | 4,264,479 |
| Student recreation | 3,683,329 |
| Other auxiliary activities | 6,891,477 |
| Total auxiliary activities expenses | $ 99,360,569 |

11. EXPENSES BY NATURAL CLASSIFICATIONS

The following table shows a classification of expenses for the year ended June 30, 2010, both by function as listed in the Statement of Revenues, Expenses, and Changes in Net Assets and by natural classification, which is the basis for amounts shown in the Statement of Cash Flows.

| | Salaries and Wages | Fringe Benefits | Services and Supplies | Scholarships and Fellowships | Utilities | Plant and Equipment | Depreciation | Total |
|---|---|---|---|---|---|---|---|---|
| Instruction | $ 79,757,579 | $23,042,288 | $ 11,505,385 | $ - | $ 15,914 | $ 3,631,332 | $ - | $117,952,498 |
| Research | 2,991,752 | 516,670 | 3,933,668 | - | - | 336,127 | - | 7,778,217 |
| Public service | 5,884,353 | 1,421,504 | 3,161,554 | - | - | 169,367 | - | 10,636,778 |
| Academic support | 15,455,037 | 4,532,821 | 3,249,613 | - | - | 6,594,189 | - | 29,831,660 |
| Student services | 7,091,244 | 2,078,939 | 3,240,986 | - | - | 233,002 | - | 12,644,171 |
| Institutional support | 11,341,273 | 4,527,587 | 6,235,986 | - | 5,672 | 752,635 | - | 22,863,153 |
| Operation and maintenance of plant | 7,852,893 | 3,109,738 | 6,095,648 | - | 5,556,404 | 2,557,650 | - | 25,172,333 |
| Depreciation expense | - | - | - | - | - | - | 24,755,766 | 24,755,766 |
| Scholarship and related expenses | - | - | - | 8,942,184 | - | | - | 8,942,184 |
| Auxiliary activities | 22,692,822 | 7,819,091 | 57,798,227 | - | 7,556,006 | 3,494,423 | - | 99,360,569 |
| Total | $153,066,953 | $47,048,638 | $95,221,067 | $8,942,184 | $13,133,996 | $17,768,725 | $24,755,766 | $359,937,329 |

12. STATE APPROPRIATIONS

The University receives state appropriations from the General Fund of the Commonwealth. The Appropriation Act specifies that such unexpended appropriations that remain on the last day of the current year, ending June 30, 2010, shall be re-appropriated for expenditure in the first month of the next year, beginning on July 1, 2010, except as may be specifically provided otherwise by the General Assembly. The Governor may, at his discretion, unallot funds from the re-appropriated balances that relate to unexpended appropriations.

During the year ending June 30, 2010 the following adjustments were made to the University's original appropriations:

| | |
|---|---|
| Original legislative appropriation: | |
| Educational and general programs | $78,821,713 |
| Student financial assistance | 6,724,848 |
| Supplemental adjustments: | |
| Central Fund appropriation transfers: | |
| Governor's budget reduction plan, 2009 Part D | (11,777,832) |
| Governor's budget reduction plan, 2010 | (2,347,055) |
| Health insurance premium | (522,950) |

| | |
|---|---|
| Sickness and disability contribution rates | (485,715) |
| One day state employee furlough | (228,389) |
| Suspension and delay of employer share of retirement, group life, retiree health credit and sickness and disability | (868,942) |
| Other miscellaneous decreases | (114,041) |
| Retirement, group life, retiree health credit and workers compensation changes (to)/from the Central Fund | (110,308) |
| Other | 99,152 |
| Reversion to the General Fund of the Commonwealth | (4,837) |
| Adjusted appropriation | $69,185,644 |

13. CAPITAL APPROPRIATIONS AND CONTRIBUTIONS

Following are the capital appropriations and contributions recognized by the University from the Commonwealth for the years ending June 30, 2010.

| | |
|---|---|
| Treasury reimbursement programs: | |
| VCBA 21st Century | $20,262,793 |
| VCBA Equipment Trust Fund | 2,145,788 |
| General Obligation Bonds | 6,125,005 |
| Total capital appropriations and contributions | $28,533,586 |

14. COMMITMENTS

At June 30, 2010, the University was a party to construction and other contracts totaling approximately $253,062,678 of which $152,963,853 has been incurred.

Under a contract between the Board of Visitors of the University and the City of Harrisonburg dated April 12, 1995, the University is committed to city services for steam and chilled water purchases and waste disposal. The city will bill the University for annual debt service for a new resource recovery facility and cost of delivered quantities of steam and chilled water. The contract will expire April 12, 2036. During the years ended June 30, 2010, such purchases totaled $5,770,176.

The University is committed under various operating leases for equipment and space. In general, the equipment leases are for two-year term and the space leases are for three- to four-year terms with appropriate renewal options for each type of lease. In most cases, the University expects that in the normal course of business, these leases will be replaced by similar leases. Rental expense was approximately $3,203,677 for the years ended June 30, 2010.

The University has, as of June 30, 2010, the following future minimum rental payments due under the above leases:

| Year Ending June 30, | Operating Lease Obligation |
|---|---|
| 2011 | $ 2,328,364 |
| 2012 | 2,638,110 |
| 2013 | 1,982,619 |
| 2014 | 1,284,480 |
| 2015 | 1,077,982 |
| 2016-2020 | 1,048,470 |
| Total | $10,360,025 |

15. RETIREMENT PLANS

a. Virginia Retirement System

Employees of the University are employees of the Commonwealth. Substantially all full-time classified salaried employees of the University participate in a defined benefit retirement plan administered by the Virginia Retirement System (VRS). VRS is an agent multiple-employer public employee retirement system that acts as a common investment and administrative agency for the Commonwealth and its political subdivisions.

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. Information relating to this plan is available at the statewide level only and can be found in the Commonwealth's *Comprehensive Annual Financial Report* (CAFR). The Commonwealth, not the University, has the overall responsibility for contributions to this plan. The CAFR provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 2010. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

The University's expenses include the amount assessed by the Commonwealth for contributions to VRS, which totaled $7,663,159 for the year ended June 30, 2010. The retirement contribution rate was 11.26 percent for fiscal year 2010. Contributions to VRS were calculated using the base salary amount of approximately $75,280,603 for the fiscal year ended June 30, 2010. The University's total payroll was approximately $154,141,576 for the year ended June 30, 2010.

b. Optional Retirement Plans

Full-time faculty and certain administrative staff participate in defined contribution plans, TIAA/CREF Insurance Companies and Fidelity Investments Tax-Exempt Services. These plans are fixed-contribution programs where the retirement benefits received are based upon the employer's (5.4 percent) and employee's (5.0 percent) contributions, plus interest and dividends.

Individual contracts issued under the plan provide for full and immediate vesting of both the University's and the employee's contributions. Total pension costs under this plan were approximately $6,104,115 for the year ended June 30, 2010. Contributions to the optional retirement plan were calculated using the base salary amount of approximately $58,693,417 for fiscal year 2010.

c. Deferred Compensation Plan

Employees of the University are employees of the Commonwealth. State employees may participate in the Commonwealth's Deferred Compensation Plan. Participating employees can contribute to the plan each pay period with the Commonwealth matching up to $20 per pay period. The dollar amount match can change depending on the funding available in the Commonwealth's budget. The Deferred Compensation Plan is a qualified defined contribution plan under Section 401(a) of the Internal Revenue Code. The University's expense for contributions under the Deferred Compensation Plan, which is an amount assessed by the Commonwealth, was approximately $831,055 for the fiscal year 2010.

## 16. POST-EMPLOYMENT BENEFITS

The Commonwealth participates in the VRS-administered, statewide group life insurance program that provides post-employment life insurance benefits to eligible retired and terminated employees. The Commonwealth also provides health care credits against the monthly health insurance premiums of its retirees who have at least 15 years of service and participate in the state health plan. Information related to these plans is available at the statewide level in the CAFR.

## 17. GRANTS AND CONTRACTS CONTINGENCIES

The University has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the University.

In addition, the University is required to comply with the various federal regulations issued by the Office of Management and Budget. Failure to comply with certain system requirements of these regulations may result in questions concerning the allowance of related direct and indirect charges pursuant to such agreements. As of June 30, 2010, the University estimates that no material liabilities will result from such audits or questions.

## 18. RISK MANAGEMENT AND EMPLOYEE HEALTH CARE PLANS

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The University participates in insurance plans maintained by the Commonwealth. The state employee health care and worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. The University pays premiums to each of these Departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the CAFR.

## 19. FEDERAL DIRECT LENDING PROGRAM

The University participates in the Federal Direct Lending Program. Under this program, the University receives funds from the U.S. Department of Education for Stafford and Plus Parent Loan Programs and disburses these funds to eligible students. The funds can be applied to outstanding student account balances or refunded directly to the student.

These loan programs are treated as student payments with the University acting as a fiduciary agent for the student. Therefore, the receipt of the funds from the federal government is not reflected on the Statement of Revenues, Expenses and Changes in Net Assets. The activity is included in the noncapital financing section of the Statement of Cash Flows. For the fiscal year ended June 30, 2010, cash provided and used by the program totaled $85,562,197.

## 20. SUBSEQUENT EVENTS

In October 2010, the Virginia Department of Treasury, on behalf of the University, issued Series 2010A-2 9(c) bonds (Taxable-Build America Bonds). The University's share of the total principal amount of the bonds issued is $14,890,000. The University will use the proceeds to finance the renovation of the Wayland Hall residential facility. Payment on the bonds will be made semi-annually, with an interest rate ranging from 2.0 to 5.0 percent. However, under the Build America Bond program, 35% of each interest payment will be subsidized by the Federal government under the terms of the American Recovery and Reinvestment Act of 2009. The final payment will be due in 2030.

In November 2010, the University entered into three promissory notes with the Virginia College Building Authority (VCBA) to participate in the Educational Facilities Revenue Bonds Series A-1 and A-2, issued by the VCBA under its Pooled Bond Program. The total principal amount of these bonds is $26,060,000. The University will use the proceeds for property acquisition and the construction of athletic and recreational facilities. Payment on the notes will be made semi-annually, with an interest rate ranging from 2.0 to 5.5 percent. However, because $17,860,000 of the notes are financed by the Build America Bond program, 35% of each interest payment will be subsidized by the Federal government under the terms of the American Recovery and Reinvestment Act of 2009. The final payment will be due in 2031.

Commonwealth of Virginia

Walter J. Kucharski, Auditor

Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

May 6, 2011

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable Charles J. Colgan
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
James Madison University

## INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of **James Madison University**, a component unit of the Commonwealth of Virginia, as of and for the year ended June 30, 2010, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of University management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the component unit of James Madison University, which is discussed in Note 1. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the component unit of the University is based on the report of the other auditors. The prior year summarized comparative information has been derived from James Madison University's 2009 financial statements, and in our report dated March 26, 2010, we expressed an unqualified opinion on the respective financial statements of the University.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the component unit of the University that was audited by other auditors upon whose report we are relying was audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and discretely presented component unit of James Madison University as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated May 6, 2011, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

AUDITOR OF PUBLIC ACCOUNTS

JS/alh

JAMES MADISON UNIVERSITY

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